FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

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INTELLIGROUP INC

CIK:**1016439**| IRS No.: **112880025** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
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SIC: **7373** Computer integrated systems design

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998
Commission File No. 0-20943

Intelligroup, Inc.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	11-2880025
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

499 Thornall Street, Edison, New Jersey	08837
(Address of Principal Executive Offices)	(Zip Code)

(732) 590-1600
(Issuer's Telephone Number, Including Area Code)

Indicate by checkmark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: X No:

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of November 9, 1998:

Class	Number of Shares
Common Stock, $.01 par value	12,668,175

EXPLANATORY NOTE

Intelligroup, Inc., a New Jersey corporation (the "Company"), hereby amends Items 1 and 2 of Part I and Item 6 of Part II of its Quarterly Report on Form 10-Q, which was filed with the Securities and Exchange Commission on November 12, 1998. Items 1 and 2 of Part I are hereby amended to reflect the restated financial information of the Company as a result of the CPI Resources transaction, which has been accounted for as a pooling of interests. Item 6 of Part II is hereby amended to reflect such restated financial information on the financial data schedule.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

INTELLIGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
September 30, 1998 and December 31, 1997

<TABLE>
<CAPTION>

	September 30, 1998 (unaudited)	December 31, 1997
ASSETS		
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents............................	$ 5,439,000	$ 8,503,000
Accounts receivable, less allowance for doubtful accounts of $1,800,000 at September 30, 1998 and $799,000 at December 31, 1997..................	23,572,000	18,995,000
Unbilled services..................................	14,115,000	7,834,000
Deferred income taxes................................	404,000	404,000
Other current assets.................................	1,907,000	676,000
Total current assets..........................	45,437,000	36,412,000
Equipment, net	7,186,000	3,484,000
Cost in excess of fair value of net assets acquired, net.	4,398,000	--
Other assets...	946,000	337,000
	$ 57,967,000	$ 40,233,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable.....................................	$ 3,662,000	$ 1,701,000
Accrued payroll and related taxes....................	6,486,000	2,636,000
Accrued expenses and other liabilities...............	3,191,000	1,465,000
Income taxes payable.................................	1,469,000	1,253,000
Current portion of obligations under capital leases...	18,000	20,000
Total current liabilities......................	14,826,000	7,075,000
Obligations under capital leases, less current portion...	54,000	51,000
Other liabilities......................................	--	126,000
Deferred income taxes	171,000	171,000
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $.01 par value, 5,000,000 shares authorized, none issued or outstanding............	--	--
Common stock, $.01 par value, 25,000,000 shares authorized; 12,667,875 and 12,358,981 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively...............	127,000	124,000
Additional paid-in capital...........................	34,634,000	30,175,000
Retained earnings	8,847,000	2,592,000

Currency translation adjustment	(692,000)	(159,000)
Minority Interest in CPI Consulting	--	78,000
Total shareholders' equity	42,916,000	32,810,000
	$ 57,967,000	$ 40,233,000

</TABLE>

See accompanying notes to consolidated financial statements.

INTELLIGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Three Months and Nine Months Ended September 30, 1998 and 1997 (unaudited)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Revenue	$ 35,769,000	$ 23,727,000	$ 98,527,000	$ 61,663,000
Cost of sales	22,899,000	15,902,000	63,554,000	42,857,000
Gross profit	12,870,000	7,825,000	34,973,000	18,806,000
Selling, general and administrative expenses	9,284,000	5,323,000	25,061,000	13,034,000
Acquisition expenses	--	--	434,000	--
Operating expenses	9,284,000	5,323,000	25,495,000	13,034,000
Operating income	3,586,000	2,502,000	9,478,000	5,772,000
Interest - net	181,000	136,000	278,000	251,000
Minority interest	--	(24,000)	(82,000)	(40,000)
Income before provision for income taxes	3,767,000	2,614,000	9,674,000	5,983,000
Provision for income taxes	1,149,000	957,000	2,909,000	2,230,000
Net income	$ 2,618,000	$ 1,657,000	$ 6,765,000	$ 3,753,000
Earnings per share:				
Basic earnings per share:				
Net income per share	$ 0.21	$ 0.14	$ 0.54	$ 0.33
Weighted average number of common shares - Basic	12,647,000	12,029,000	12,481,000	11,477,000

Diluted earnings per share:				
Net income per share.......	$ 0.20	$ 0.13	$ 0.52	$ 0.31
Weighted average number of common shares - Diluted...	13,157,000	12,698,000	12,978,000	11,926,000

Comprehensive Income

Net income.......................	$ 2,618,000	$ 1,657,000	$ 6,765,000	$ 3,753,000
Other comprehensive income - Currency translation adjustments................	(173,000)	--	(533,000)	--
Comprehensive income............	$ 2,445,000	$ 1,657,000	$ 6,232,000	$ 3,753,000

</TABLE>

See accompanying notes to consolidated financial statements.

INTELLIGROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 1998 and
September 30, 1997
(unaudited)

<TABLE>
<CAPTION>

	September 30, 1998	September 30, 1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$6,765,000	$3,753,000
Adjustments to reconcile net income to net cash provided by(used in) operating activities:		
Depreciation and amortization......................	850,000	287,000
Provision for doubtful accounts....................	923,000	340,000
Minority interest in income of subsidiary..........	78,000	--
Changes in assets and liabilities:		
Accounts receivable...............................	(5,500,000)	(5,988,000)
Unbilled services.................................	(6,281,000)	(5,111,000)
Other current assets..............................	(1,231,000)	(99,000)
Other assets......................................	(609,000)	(68,000)
Accounts payable..................................	1,961,000	1,207,000
Accrued payroll and related taxes..................	3,850,000	782,000
Accrued expenses and other liabilities............	174,000	(161,000)
Income taxes payable..............................	216,000	374,000
Net cash provided by (used in) operating activities..................................	1,196,000	(4,684,000)

Cash flows from investing activities:		
Purchase of equipment	(5,013,000)	(2,234,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	--	9,900,000
Proceeds from the exercise of stock options	1,319,000	721,000
Principal payments under capital leases	(33,000)	(6,000)
Net cash provided by financing activities	1,286,000	10,615,000
Effect of foreign currency exchange rate changes on cash	(533,000)	--
Net increase (decrease) in cash and cash equivalents	(3,064,000)	3,697,000
Cash and cash equivalents at beginning of period	8,503,000	7,479,000
Cash and cash equivalents at end of period	$5,439,000	$11,176,000

</TABLE>

See accompanying notes to consolidated financial statements.

INTELLIGROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) BASIS OF PRESENTATION

The consolidated financial statements and accompanying financial information as of September 30, 1998 and for the three and nine months ended September 30, 1998 and 1997 are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position of the Company at such dates and the operating results and cash flows for those periods. The financial statements included herein have been prepared in accordance with generally accepted accounting principles and the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 1997, which were included as part of the Company's Form 10-KSB.

Management of the Company, after consultation with its auditors, determined that the acquisition of CPI Resources Limited in May 1998, in a transaction accounted for as a pooling of interests, was not material to prior period consolidated financial statements and thus did not restate them. However, as a result of a subsequent SEC staff interpretation of materiality, management of the Company has elected to restate prior period consolidated financial statements in accordance with pooling of interests accounting. The consolidated financial statements for all periods presented in this amended report have been restated to include the results of operations and financial position of CPI Resources Limited.

Results for interim periods are not necessarily indicative of results for the entire year.

(2) EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128") which has replaced the former rules for earnings per share computations, presentation and disclosure. Under the new standard, basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The Company has adopted SFAS 128 and, as required by the standard, has restated all prior period earnings per share data. The Company's new earnings per share amounts as calculated under SFAS 128 are not materially different from those computed under the former accounting standard.

A reconciliation of weighted average number of common shares outstanding to weighted average common shares outstanding assuming dilution is as follows:
<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Weighted average number of common shares	12,647,000	12,029,000	12,481,000	11,477,000
Common share equivalents of outstanding stock options	510,000	669,000	497,000	449,000
Weighted average number of common shares assuming dilution	13,157,000	12,698,000	12,978,000	11,926,000

</TABLE>

Certain stock options outstanding at September 30, 1998 were not included in the computations of earnings per share assuming dilution because the options' exercise prices were greater than the average trading price of the Company's common shares.

(3) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting comprehensive income and its components. In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes revised reporting and disclosure requirements for operating segments. These standards increase financial reporting disclosures and have no impact on the Company's financial position or results from operations.

(4) ACQUISITIONS

On May 7, 1998, the Company acquired thirty percent of the outstanding share capital of CPI Consulting Limited. The acquisition of CPI Consulting Limited was accounted for utilizing purchase accounting. The consideration paid by the Company included the issuance of 165,696 shares of the Company's Common Stock with a fair market value of $3.1 million, and a future liability to the sellers predicated upon operating results for the balance of 1998, which is currently estimated at $1.2 million. The excess of purchase price over the fair value of the net assets acquired was attributed to intangible assets, amounting in the aggregate to $4.5 million, which was recorded at the time of the purchase.

On May 21, 1998, the Company acquired all of the outstanding share capital of CPI Resources Limited. The acquisition of CPI Resources Limited was accounted for as a pooling of interests. Prior year results have been restated in accordance with pooling of interests accounting. As consideration for this acquisition, the Company issued 371,000 shares of the Company's Common Stock. At the time of the acquisition, CPI Resources Limited owned seventy percent of the outstanding share capital of CPI Consulting Limited. In connection with this acquisition, the Company incurred one-time costs of $434,000.

(5) FOLLOW-ON PUBLIC OFFERING

On July 2, 1997, the Company consummated a follow-on public offering (the "Offering") of 1,000,000 shares of its Common Stock at a price to the public of $9.50 per share. On July 15, 1997 and as part of the Offering, an additional 150,000 shares at a price to the public of $9.50 per share were issued and sold by the Company to cover overallotments. The net proceeds to the Company from the Offering, after underwriting discounts and commissions and other expenses of the Offering, were approximately $9.9 million.

(6) STOCK RIGHTS

In October 1998 the Company's Board of Directors declared a dividend distribution of one Preferred Share Purchase Right for each outstanding share of the Company's Common Stock. These Rights will expire in November 2008 and trade with the Company's Common Stock. Such Rights are not presently exercisable and have no voting power. In the event a person or affiliated group of persons, acquires 20% or more, or makes a tender or exchange offer for 20% or more of the Company's Common Stock, the Rights detach from the Common Stock and become exercisable and entitle a holder to buy one one-hundredth (1/100) of a share of Preferred Stock at $100.00.

If, after the Rights become exercisable, the Company is acquired or merged, each Right will entitle its holder to purchase $200.00 market value of the surviving company's stock for $100.00, based upon the current exercise price of the Rights. The Company may redeem the Rights, at its option, at $.01 per Right prior to a public announcement that any person has acquired beneficial ownership of at least 20% of the Company's Common Stock. These Rights are designed primarily to encourage anyone interested in acquiring the Company to negotiate with the Board of Directors.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The Company provides a wide range of information technology services, including enterprise-wide business process solutions, internet applications services, systems integration and custom software development based on leading technologies. The Company has grown rapidly since 1994 when it made a strategic decision to diversify its customer base by expanding the scope of its integration and development services and to utilize SAP software as a primary tool to implement enterprise-wide business process solutions. In 1995, the Company became an SAP National Implementation Partner and also began to utilize Oracle products to diversify its service offerings. In 1997, the Company achieved National Logo Partner status with SAP. In July 1997, the Company achieved AcceleratedSAP Partner Status with SAP by meeting certain performance criteria established by SAP. Also, in 1997, the Company began to provide implementation services to PeopleSoft and Baan licensees to further diversify its service offerings. In July 1997, the Company was awarded an implementation partnership status by PeopleSoft. In September 1997, the Company was awarded an international consulting partnership status by Baan. In June, 1998, the Company also expanded its Oracle applications implementation services practice and added upgrade services to meet market demand of mid-size to large companies that are implementing or upgrading Oracle applications.

The Company generates revenue from professional services rendered to customers. Revenue is recognized as services are performed. The Company's services range from providing customers with a single consultant to multi-personnel full-scale projects. The Company provides these services to its customers primarily on a time and materials basis and pursuant to written contracts which can be terminated with limited advance notice, typically not more than 30 days, and without significant penalty, generally limited to fees earned and expenses incurred by the Company through the date of termination. The Company provides its services directly to end-user organizations or as a member of a consulting team assembled by another information technology consulting firm to Fortune 1000 and other large and mid-sized companies. The Company generally bills its customers semi-monthly for the services provided by its consultants at contracted rates. Where contractual provisions permit, customers also are billed for reimbursement of expenses incurred by the Company on the customers' behalf.

The Company has provided services on certain projects in which it, at the request of the clients, offered a fixed price for its services, however, none of these projects are currently material to the Company's business, financial condition and results of operations. The Company believes that, as it pursues its strategy of making turnkey project management a larger portion of its business, it will likely be required to offer fixed price projects to a greater degree. The Company has had limited prior experience in pricing and performing under fixed price arrangements and believes that there are certain risks related thereto, and thus prices such arrangements to reflect the associated risk. There can be no assurance that the Company will be able to complete such projects within fixed price timeframes. The failure to perform within such fixed price contracts, if entered into, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has derived and believes that it will continue to derive a significant portion of its revenue from a limited number of customers and projects. For the nine months ended September 30, 1998 and the year ended December 31, 1997, the Company's ten largest customers accounted for in the aggregate approximately 41% and 46% of its revenue, respectively. During the nine months ended September 30, 1998, no customer accounted for more than 10% of revenue. During the year ended December 31, 1997, PricewaterhouseCoopers LLP (formerly Price Waterhouse LLP) accounted for more than 10% of revenue. For the nine months ended September 30, 1998 and the year ended December 31, 1997, 37% and 32%, respectively, of the Company's revenue was generated by serving as a member of consulting teams assembled by other information technology consulting firms. There can be no assurance that such information technology consulting firms will continue to engage the Company in the future at current levels of retention, if at all. During the nine months ended September 30, 1998 and the year ended December 31, 1997, approximately 63% and 58%, respectively, of the Company's total revenue was derived from projects in which the Company implemented software developed by SAP. During the nine months ended September 30, 1998 and the year ended December 31, 1997, approximately 14% and 12%, respectively, of the Company's total revenue was derived from projects in which the Company implemented software developed by Oracle. During the nine months ended September 30, 1998, approximately 46% of the Company's revenue was derived from engagements in which the Company had project management responsibilities, compared to 28% during the year ended December 31, 1997.

The Company's most significant cost is project personnel expenses, which consists of consultant salaries, benefits and payroll-related expenses. Thus, the Company's financial performance is based primarily upon billing margin (billable hourly rate less the cost to the Company of a consultant on an hourly basis) and personnel utilization rates (billable hours divided by paid hours). The Company believes that turnkey project management assignments typically carry higher margins. The Company has been shifting to such higher-margin turnkey management assignments and more complex projects by leveraging its reputation, existing capabilities, proprietary implementation methodology, development tools and offshore development capabilities with expanded sales and marketing efforts and new service offerings to develop turnkey project sales opportunities with both new and existing customers. The Company's inability to continue towards a shift to higher-margin turnkey management assignments and more complex projects may adversely impact the Company's future growth.

Since late 1994, the Company has made substantial investments in its infrastructure in order to support its rapid growth. For example, in 1994, the Company established and funded an Advanced Development Center (the "ADC") in India, and in 1995, established a sales office in Northern California. In addition, from 1994 to date, the Company has incurred expenses to develop proprietary development tools and its proprietary accelerated implementation methodology and toolset. Since 1995, the Company has also been increasing its sales force and its marketing, finance, accounting and administrative staff, in order to effectively manage its growth.

The Company currently maintains sales and operations offices in Chicago, Detroit, Foster City (California), Reston (Virginia), Edison (New Jersey), Dallas, Atlanta, Phoenix, Boston, Miami and Washington, D.C. In addition to the ADC and sales offices in India, the Company also has offices in Australia, Denmark, Japan, New Zealand, Singapore and the United Kingdom. The

Company leases its headquarters in Edison, New Jersey, totaling approximately 48,475 square feet. Such lease has an initial term of ten (10) years, commencing in September 1998. The Company is in the process of finalizing an agreement to sublet the space used for its prior headquarters for the remainder of the term of its sublease, which expires November 15, 1999.

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding the Company's intention to shift to higher margin turnkey management assignments and more complex projects and to utilize its proprietary implementation methodology in an increasing number of projects. Such forward-looking statements include risks and uncertainties, including, but not limited to: (i) the substantial variability of the Company's quarterly operating results caused by a variety of factors, many of which are not within the Company's control, including (a) seasonal patterns of hardware and software capital spending by customers, (b) information technology outsourcing trends, (c) the timing, size and stage of projects, (d) new service introductions by the Company or its competitors and the timing of new product introductions by the Company's ERP partners, (e) levels of market acceptance for the Company's services, (f) general economic conditions, (g) the hiring of additional staff and (h) fixed price contracts; (ii) changes in the Company's billing and employee utilization rates; (iii) the Company's ability to manage its growth effectively, which will require the Company (a) to continue developing and improving its operational, financial and other internal systems, as well as its business development capabilities, (b) to attract, train, retain, motivate and manage its employees, (c) to continue to maintain high rates of employee utilization at profitable billing rates and, (d) to maintain project quality, particularly if the size and scope of the Company's projects increase; (iv) the Company's ability to maintain an effective internal control structure; (v) the Company's limited operating history within its current line of business; (vi) the Company's reliance on a continued relationship with SAP America and the Company's present status as a SAP National Logo Partner; (vii) the Company's substantial reliance on key customers and large projects; (viii) the highly competitive nature of the markets for the Company's services; (ix) the Company's ability to successfully address the continuing changes in information technology, evolving industry standards and changing customer objectives and preferences; (x) the Company's reliance on the continued services of its key executive officers and leading technical personnel; (xi) the Company's ability to attract and retain a sufficient number of highly skilled employees in the future; (xii) the progress the Company may have at continuing to diversify its offerings, including growth in its Oracle, Baan and PeopleSoft services; (xiii) uncertainties resulting from pending litigation matters and from potential administrative and regulatory immigration and tax law matters; (xiv) the Company's ability to protect its intellectual property rights; and (xv) Year 2000 compliance of vendors' products and related issues, including impact of the Year 2000 problem on customer buying patterns. The Company's actual results may differ materially from the results disclosed in such forward-looking statements.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated certain financial data as a percentage of revenue:

<TABLE>
<CAPTION>

	Percentage of Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	64.0	67.0	64.5	69.5
Gross profit	36.0	33.0	35.5	30.5
Selling, general and administrative expenses	26.0	22.5	25.5	21.1
Acquisition expenses	0.0	0.0	0.4	0.0
Operating income	10.0	10.5	9.6	9.4
Other income	0.5	0.5	0.2	0.3
Income before provision for income taxes	10.5	11.0	9.8	9.7
Provision for income taxes	3.2	4.0	2.9	3.6
Net income	7.3%	7.0%	6.9%	6.1%

</TABLE>

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO
THREE MONTHS ENDED SEPTEMBER 30, 1997

Revenue. Revenue increased by 51%, or $12.1 million, from $23.7 million during the three months ended September 30, 1997, to $35.8 million during the three months ended September 30, 1998. This increase is attributable primarily to increased demand for the Company's SAP and Oracle-related Implementation Consulting Services, as well as the Company's systems integration and custom software development services.

Gross profit. The Company's cost of sales includes primarily the cost of salaries to consultants and related employee benefits and payroll taxes. The Company's cost of sales increased by 44%, or $7.0 million, from $15.9 million during the three months ended September 30, 1997 to $22.9 million during the three months ended September 30, 1998. The increase was due to increased personnel costs resulting from the hiring of additional consultants to support the increase in demand for the Company's services. The Company's gross profit increased by 65%, or $5.1 million, from $7.8 million during the three months ended September 30, 1997 to $12.9 million during the three months ended September 30, 1998. Gross profit margin increased from 33.0% of revenue during the three months ended September 30, 1997 to 36.0% of revenue during the three months ended September 30, 1998. The increase in such gross profit margin was primarily attributable to both the expanded utilization of the Company's offshore development facility in India, and the increase in implementation service projects where the Company has project management responsibilities, which typically carry higher gross margins than those in which the Company provides supplemental staffing for client managed projects.

Selling, general and administrative expenses Selling, general and administrative expenses increased by 74%, or $4.0 million, from $5.3 million during the three months ended September 30, 1997 to $9.3 million during the three months ended September 30, 1998, and increased as a percentage of revenue from 22.4% to 26.0%. The increases in such expenses in absolute dollars and as a percentage of revenue were due primarily to the increase in salaries and related benefits,

reflecting headcount increases in the Company's sales force and its marketing, finance, accounting and administrative staff, in order to manage its growth. In addition, the Company experienced increases in sales and management recruiting costs, occupancy costs as additional offices were opened in the United States, support services and the provision for doubtful accounts.

Other income. Interest income has been earned on interest bearing cash accounts and short-term investments. In accordance with investment guidelines approved by the Company's Board of Directors, cash balances in excess of those required to fund operations have been invested in short-term U.S. Treasury securities and commercial paper with a credit rating no lower than A1/P1.

Provision for income taxes. The Company's effective tax rate was 30.5% and 36.6% for the three months ended September 30, 1998 and 1997, respectively. In 1996, the Company elected a five year tax holiday in India, in accordance with a local tax incentive program whereby no income tax will be due in such period. For the three months ended September 30, 1998, the tax holiday favorably impacted the Company's effective tax rate by approximately 9%, while the effect was not significant in the three months ended September 30, 1997.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO
NINE MONTHS ENDED SEPTEMBER 30, 1997

Revenue. Revenue increased by 60%, or $36.8 million, from $61.7 million during the nine months ended September 30, 1997 to $98.5 million during the nine months ended September 30, 1998. This increase was attributable primarily to increased demand for the Company's implementation consulting services and, to a lesser extent, to increased demand for the Company's systems integration and custom software development services.

Gross profit. The Company's cost of sales increased by 48%, or $20.7 million, from $42.9 million during the nine months ended September 30, 1997 to $63.6 million during the nine months ended September 30, 1998. The increase was due to increased personnel costs resulting from the hiring of additional consultants to support the increase in demand for the Company's services. The Company's gross profit increased by 86%, or $16.2 million, from $18.8 million during the nine months ended September 30, 1997 to $35.0 million during the nine months ended September 30, 1998. Gross profit margin increased from 30.5% of revenue during the nine months ended September 30, 1997 to 35.5% of revenue during the nine months ended September 30, 1998. The increase in such gross profit margin was primarily attributable to both the expanded utilization of the Company's offshore development facility in India, and the increase in implementation service projects where the Company has project management responsibilities, which typically carry higher gross margins than those in which the Company provides supplemental staffing for client managed projects.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by 92%, or $12.1 million, from $13.0 million during the nine months ended September 30, 1997 to $25.1 million during the nine months ended September 30, 1998, and increased as a percentage of revenue from 21.1% to 25.5% of revenue. The increases in such expenses in absolute dollars and as a percentage of revenue were due primarily to the increase in salaries and related benefits, reflecting headcount increases in the Company's sales force and its marketing, finance, accounting and administrative staff, in order to manage its growth. In

addition, the Company experienced increases in sales and management recruiting costs, occupancy costs as additional offices were opened in the United States, support services and the provision for doubtful accounts.

Acquisition expense. During the nine months ended September 30, 1998, the Company incurred costs of $434,000 in connection with the acquisition of CPI Resources Limited, which was accounted for as a pooling of interests. These costs primarily consisted of professional fees associated with the acquisition.

Other income. Interest income has been earned on interest bearing cash accounts and short-term investments. In accordance with investment guidelines approved by the Company's Board of Directors, cash balances in excess of those required to fund operations have been invested in short-term U.S. Treasury securities and commercial paper with a credit rating no lower than A1/P1.

Provision for income taxes. The Company's effective income tax rate was 30.1% and 37.3% for the nine months ended September 30, 1998 and 1997 respectively. In 1996, the Company elected a five year tax holiday in India, in accordance with a local tax incentive program whereby no income tax will be due in such period. For the nine months ended September 30, 1998, the tax holiday favorably impacted the Company's effective tax rate by approximately 9%, while the effect was not significant in the nine months ended September 30, 1997.

BACKLOG

The Company normally enters into written contracts with its customers at the time it commences work on a project. These written contracts contain varying terms and conditions and the Company does not generally believe it is appropriate to characterize such written contracts as creating backlog. In addition, because these written contracts often provide that the arrangement can be terminated with limited advance notice and without significant penalty, the Company does not believe that projects in process at any one time are a reliable indicator or measure of expected future revenue. In the event that a customer terminates a project, the customer remains obligated to pay the Company for services performed by it through the date of termination.

LIQUIDITY AND CAPITAL RESOURCES

The Company funds its operations primarily from cash flow generated from operations, and to a lesser extent, from cash balances generated from the Company's initial and follow-on public offerings consummated in October 1996 and July 1997, respectively.

The Company had cash and cash equivalents of $5.4 million at September 30, 1998, and $8.5 million at December 31, 1997. The Company had working capital of $30.6 million at September 30, 1998 and $29.3 million at December 31, 1997.

Cash provided by operating activities was $1.2 million during the nine months ended September 30, 1998, resulting primarily from net income of $6.8 million for the nine months ended September 30, 1998, an increase of $5.8 million in accounts payable and accrued payroll, offset by an increase of $11.8 million in accounts receivable and unbilled services. Cash used in operating activities for the nine months ended September 30, 1997 was $4.7 million.

The Company invested $5.0 million and $2.2 million in computer equipment and office furniture and fixtures during the nine months ended September 30, 1998 and 1997, respectively. The increase reflects purchases of computer and telecommunication equipment for consultants and administrative staff and office furniture and fixtures related to the Company's new headquarters in Edison, New Jersey, and other new offices opened during 1998.

In January 1997, and as later amended on August 18, 1997, the Company entered into a two-year credit agreement with a bank (the "Bank"). The credit facility with the Bank has two components comprised of (i) a revolving line of credit pursuant to which the Company may borrow up to $7.5 million either at the Bank's prime rate per annum or the EuroRate plus 2% (at the Company's option), and (ii) equipment term loans pursuant to which the Company may borrow up to an aggregate of $350,000 (at the Bank's prime rate plus 1/4 of 1% per annum) to purchase equipment. The credit agreement contains covenants which require the Company to (i) maintain its working capital during the year at no less than 90% of the working capital at the end of the immediately preceding fiscal year and at the end of each fiscal year at no less than 105% of its working capital at the end of the immediately preceding fiscal year; and (ii) maintain its tangible net worth during the year at no less than 95% of its tangible net worth at the end of the immediately preceding fiscal year and at the end of each fiscal year at no less than 108% of tangible net worth at the end of the immediately preceding fiscal year. As of September 30, 1998, the Company is in compliance with all debt covenants. The Company's obligations under the credit agreement are collateralized by substantially all of the Company's assets, including its accounts receivable and intellectual property. The Company's obligations under the credit facility are payable at the expiration of such facility on January 22, 1999. These terms are subject to the Company maintaining an unsubordinated debt to tangible net worth ratio of no greater than one to one and an earnings before interest and taxes to interest expense ratio of no less than three to one.

As of September 30, 1998, there were no amounts outstanding under the revolving line of credit and no equipment term loans outstanding.

On October 22, 1998, the Company announced that it had executed a commitment letter with PNC Bank for a three-year $30 million revolving credit facility. When finalized, such facility will replace the Company's current two-year $7.5 million credit facility. The Company expects to close this facility in November 1998. There can be no assurance, however, that such facility will be finalized in 1998, if at all.

The Company believes that its available funds, together with current credit arrangements and the cash flows expected to be generated from operations, will be adequate to satisfy its current and planned operations through at least the next twelve months.

YEAR 2000 COMPLIANCE

Historically, certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than 2000. This in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000 Problem". The Company believes that it has sufficiently assessed its state of readiness with respect to its Year 2000 compliance. Based on its assessment, the Company does not believe that Year 2000 compliance will result in material investments by the Company, nor does the Company anticipate that the Year 2000 Problem will have any adverse effects on the business operations or financial performance of the Company. The Company does not believe that it has any material exposure to the Year 2000 Problem with respect to its own information systems.

The purchasing patterns of customers and potential customers may be affected by issues associated with the Year 2000 Problem. As companies expend significant resources to correct their current data storage solutions, these expenditures may result in reduced funds to purchase products or undertake projects such as those offered by the Company. There can be no assurance that the Year 2000 Problem, as it relates to customers, potential customers and other third-parties, will not adversely affect the Company's business, operating results and financial condition. Conversely, the Year 2000 Problem may cause other companies to accelerate purchases, thereby causing an increase in short-term demand and a consequent decrease in long-term demand for the Company's products.

EUROPEAN MONETARY UNION (EMU)

The euro is scheduled to be introduced on January 1, 1999, at which time the eleven participating EMU member countries will establish fixed conversion rates between their existing currencies (legacy currencies) and the euro. The legacy currencies will continue to be used as legal tender through January 1, 2002; thereafter, the legacy currencies will be canceled and euro bills and coins will be used for cash transactions in the participating countries. The Company's European sales and operations offices affected by the euro conversion have established plans to address the systems issues raised by the euro currency conversion and are cognizant of the potential business implications of converting to a common currency. The Company is unable to determine the ultimate financial impact of the conversion on its operations, if any, given that the impact will be dependent upon the competitive situations which exist in the various regional markets in which the Company participates and the potential actions which may or may not be taken by the Company's competitors and suppliers.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

27.1 Restated Financial Data Schedule for the period ended September 30, 1998.

27.2 Restated Financial Data Schedule for the period ended September 30, 1997.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter for which this report on Form 10-Q is filed.

Subsequent to the quarter ended September 30, 1998, the Company filed, on November 9, 1998, a Current Report on Form 8-K with the Securities and Exchange Commission relating to the Company's adoption of a Shareholder Rights Plan. See Item 2, Changes in Securities and Use of Proceeds.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Intelligroup, Inc.

DATE: March 26, 1999

By: /s/ Stephen A. Carns

Stephen A. Carns,
President and Chief Executive Officer
(Principal Executive Officer)

DATE: March 26, 1999

By: /s/ Gerard E. Dorsey

Gerard E. Dorsey,
Senior Vice President-Finance and
Chief Financial Officer
(Principal Financial and Accounting Officer)

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